114.1 CMR 42:00 HOSPITAL FINANCIAL REPORTS

Section

42.01: General Provisions

(1) Scope and Purpose. 114.1 CMR 42.00 sets forth annual cost report, charge book and quarterly filing requirements for acute and non-acute hospitals. It does not govern filing requirements for case mix and charge data, which are set forth in 114.1 CMR 17.00. It does not govern filing requirements related to free care claims, which are set forth in 114.6 CMR 11.00. The purpose of the annual filing requirements is to support the Division's work in calculating Medicaid rates of payment and administering the Uncompensated Care Pool. The purpose of the quarterly filing is to provide the Division with data enabling an "early-warning" system for policymakers and other decision-makers regarding financially troubled hospitals and is deemed necessary in order to better protect the public's interest in monitoring the financial conditions of acute hospitals.

(2) Authority. 114.1 CMR 42.00 is adopted pursuant to M.G.L. 118G.

(3) Effective Date. 114.1 CMR 42.00 is effective on October 1, 2002.

42.02: Definitions

Acute Hospital. A hospital licensed under M.G.L. c. 111, § 51, which contains a majority of medical-surgical, pediatric, obstetric, and maternity beds, as defined by the Department of Public Health.

Audited Financial Statements. Financial Statements of an entity that are subject to an independent audit in accordance with Generally Accepted Auditing Standards (GAAS). The independent auditor issues a report that expresses an opinion whether or not the accompanying financial statements are presented fairly in accordance with Generally Accepted Accounting Principles (GAAP).

Charge. The uniform price for each specific service within a revenue center of a hospital.

Division. The Division of Health Care Finance and Policy (DHCFP) of the Executive Office of Health and Human Services created pursuant to M.G.L. c.118G.

Free Care. Any unpaid hospital charges deemed as free care pursuant to the Division's regulations at 114.6 CMR 10.00.

Medicaid. The Medical Assistance Program administered by the Division of Medical Assistance to furnish and pay for medical services pursuant to M.G.L. c. 118E and Title XIX and XXI of the Social Security Act.

Non-Acute Hospital. A hospital which is defined and licensed under M.G.L. c. 111, § 51, with less than a majority of medical-surgical, pediatric, maternity and obstetric beds, or any psychiatric facility licensed under M.G.L. c. 19, §29, or any public health care facility.

SPAD Payment. The Standard Payment Amount per Discharge paid by Medicaid to acute hospitals for covered inpatient services.

42.03 General Reporting Requirements

(1) Required Reports. Each hospital shall file with the Division, for each fiscal year, the following documents within 120 days of the close of its fiscal year.

(a) DHCFP-403. Each hospital shall file the Hospital Statement of Costs, Revenues, and Statistics, DHCFP-403, to be completed in accordance with the instructions set forth therein, the requirements of 114.1 CMR 4.00, and any pertinent administrative bulletins issued by the Division. The information filed shall reflect a September 30th year-end date. Each hospital shall file:

1. two paper copies of the DHCFP-403;
2. one electronic copy of the DHCFP-403;
3. one hard copy of the hospital's 2552 Medicare Cost Report; and
4. for non-acute hospitals only, two copies of the hospital's audited financial statements

(b) Charge Books. Each hospital shall file with the Division two copies of the hospital's charge book at the beginning of each fiscal year and within 30 days following each quarter in which charges are changed. Such charge book shall contain the charges in effect on the last day of said quarter. A statement shall accompany each charge book from the hospital detailing charge modifications implemented after the last filing. The hospital may submit the charge book electronically.

(2) Other Data and Required Reports. Each hospital shall make available all books and records relating to its operations for the audit period, as requested by the Division. It is the responsibility of the hospital to provide information that represents a fair, accurate and comprehensive response to issues raised by, or requests from, the Division. Each hospital shall submit all cost information requested by the Division, including information the Division determines is necessary to document reported costs or to calculate Medicaid rates of payment. The chief executive officer or chief financial officer shall certify under pains and penalties of perjury that all reports, schedules, reporting forms, budget information, books and records filed with the Division are true, correct and accurate. For unaudited

financial information contained in a Quarterly Report submission pursuant to 114.1 CMR 42.04 below, the certification provided by the officer shall be that the information contained in the report fairly represents, in all material respects, the financial condition and result of operations of the hospital.

(3) The hospital shall submit documentation requested by the Division within 15 business days from the date of the request, unless a different time is specified. The Division may, for cause, extend the filing date of the requested information, in response to a written request for an extension of time.

(4) For required reports in 114.1 CMR 42.00 and section 42.04, data filed must be current with Generally Accepted Accounting Principles (GAAP) as issued by the Financial Accounting Standards Board (FASB), or other appropriate accounting standards given the organization's governance such as the Government Accounting Standards Board (GASB); as well as general industry practice, as evidenced in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guides of Healthcare Organizations and Not-for-Profit Organizations.

(5) Audited financial statements must be filed for each hospital. For those hospitals that have a parent company, consolidated statements must also be filed. Any consolidated financial statement filed must be at the level of the ultimate parent organization. Consolidated or combined financial statements may not be substituted for financial statements of the hospital (subsidiary). However, if an independent audit occurs only at the consolidated level, then internal financial statements of the hospital (subsidiary) must be filed. These internal financial statements must be accompanied by a signed statement by the parent organization's chief financial officer attesting that the information contained in the report fairly represents, in all material respects, the financial condition and result of operations of the subsidiary hospital, and that the statements are a fair representation of the endowments, reserves, cash flows and general viability of the subsidiary hospital.

42.04 Quarterly and Annual Reports

(1) Each acute hospital shall file a Quarterly Report for each quarter of the fiscal year. The Quarterly Report will follow each hospital's own fiscal year. The Quarterly Report shall include financial data, information on changes in bed capacity, and services and utilization data. The submission shall be completed via the Division's website in accordance with the forms and instructions set out in the website and any administrative bulletins issued by the Division.

(a) Financial Data. The financial data shall include, but not be limited to, a balance sheet, a statement of operations, and a cash flow statement. At the option of the hospital, footnotes related to any portion of the financial statements may be included. The statement of operations and the cash flow statement shall be cumulative (year-to-date). For the first quarterly filing, which is due November 15, 2002, the financial data filed will reflect a cumulative twelve (12) months of fiscal year 2002 for all hospitals whose 2002 fiscal year has ended. For those hospitals

with a fiscal year ending after September 30, the hospital will file a cumulative fiscal year to date report for the most recent fiscal quarter that ended on or prior to September 30, 2002. For subsequent filings, the financial data will reflect cumulative year-to-date data for the most recent fiscal quarter that ended on or prior to the filing deadline. It is the responsibility of the hospital to ensure that the financial statements are a fair representation of the endowments, reserves, cash flow and viability of the hospital. The Division may also request additional information regarding the fiscal condition of the hospital, if necessary.

(b) Other Information. The Quarterly Report shall also include information on changes in bed capacity, services, and utilization statistics. The Division shall require the hospital to include monthly statistics on beds, days and discharges. The utilization statistics will reflect only activity during the month or quarter and will not be cumulative.

(c) Additional Information/Comment. The hospital may choose to disclose information it feels would provide explanation and clarification of data presented and provide users with additional useful information that might not be evident by the financial statements alone**.** Such additional disclosures shall be filed on the website and shall be limited to 5,000 characters. Additional information beyond the 5,000 characters may be submitted by mail to the Division.

(2) Filing Deadline. Hospitals must file the first Quarterly Report by November 15, 2002. This first report will reflect 12 months of cumulative FY2002 financial information unless the hospital's fiscal year ends after September 30, 2002, in which case, the hospital will file a cumulative fiscal year-to-date report for the most recent fiscal quarter ending on or prior to September 30, 2002. For instance, if a hospital's fiscal year ends on December 31, 2002, then that hospital will file a nine-month cumulative report for FY2002 on November 15, 2002, and will file the last three months of their FY2002 at the next quarterly filing. All filings will follow the hospital's own fiscal year. Following the first filing on November 15, 2002, subsequent filings will be due each year on February 15, May 15, August 15 and November 15. These filings will reflect cumulative (year-to-date) information ending with the most recently completed fiscal quarter. The Division does not favor extending the deadline for the Quarterly Report, given its time sensitive nature. The Division may, only for a demonstrated good cause, extend the filing date of the requested information, in response to a written request for an extension of time. Once the Quarterly Report is submitted, hospitals may request an opportunity to make adjustments. Such request must include an explanation of the proposed changes and must be made within 20 days after the filing deadline. Hospitals failing to meet the filing date may be noted on the Division's website as having failed to file the report. Hospitals with an approved extension may be noted on the website.

(3) Each acute hospital shall file the Quarterly Report and the Annual Report in an electronic format as specified by the Division.

(4) Annual Reports. On the Division's website, acute hospitals will also submit an Annual Report of the financial information only, which shall represent cumulative 12 months data of each hospital's fiscal year, no later than 100 days after the end of each

hospital's fiscal year. This Annual Report will reflect all audit adjustments that are self-initiated or initiated by the independent auditors as reflected in the audited financial statements for that fiscal year. In the case of a hospital subsidiary without a hospital-only audited financial statement, the final filing of cumulative data will reflect all adjustments made to the attested-to internal financial statements. If the data in the Annual Report differs from the audited financial statements, text reconciliations must also be filed via the Web site. If the audit becomes reopened, hospitals must report any adjustments made after this 100-day period. Any adjustments made after 100 days will not affect the hospital's Uncompensated Care Pool and Medicaid payments. This Annual Report reflecting internal and audit adjustments will be in lieu of filing Schedule XXIII of the DHCFP-403. Acute hospitals will also file two hard copies of the hospital's audited financial statements 100 days after the end of their fiscal year.

(5) Both the submitted Quarterly Report and the Annual Report will be under review for a period of 20 days following the filing date. During these review periods, data will be statutorily exempt from public records release pursuant to the Division's statute. Both the Quarterly Report and the Annual Report as submitted by the hospital shall become available for public release electronically or otherwise following these review periods. During the review period, the Division may share information with the Attorney General's office, the Department of Public Health, and other similar oversight organizations and agencies, provided that any such entity with which the information is shared shall agree to treat it on the same confidential basis as does the Division pursuant to this regulation.

42.05 Audit by Division

(1) General. All information provided by, or required from, any hospital pursuant to 114.1 CMR 42.00 shall be subject to audit by the Division.

(2) Processing of Division-Initiated Audit Adjustments.

(a) Notification. After audit, the Division shall notify a hospital of its proposed audit adjustments. The notification shall be in writing and shall contain a complete listing of all proposed adjustments.

(b) Objection Process.

1. A hospital may file a written objection to a proposed audit adjustment within 15 business days of the mailing of the notification letter.
2. The written objection must, at a minimum, contain:
    a. Each adjustment to which the hospital is objecting,
    b. The fiscal year for each disputed adjustment,
    c. The specific reason for each objection, and
    d. All documentation which supports the hospital's position.
3. Upon review of the hospital's objections, the Division shall notify the hospital of its determination in writing. If the Division disagrees with the hospital's objections, in whole or in part, the Division shall provide the hospital with an explanation of its reasoning.

4. The hospital may request a conference on objections after receiving the Division's explanation of reasons. The Division will schedule such conference on objections if it determines that further articulation of the hospital's position would promote resolution of the disputed adjustments. If a resolution is still not reached, the Division may schedule an audit adjustment dispute hearing.

42.06 Compliance

(1) Adjustment of Medicaid Rate. If a hospital does not comply with the reporting requirements of 114.1 CMR 42.00, the hospital's Medicaid payment rate may be reduced. For non-acute hospitals, the Medicaid inpatient per diem will be reduced. For acute hospitals, the SPAD payment will be reduced. The Division will notify the Division of Medical Assistance to reduce the hospital's Medicaid payment rate in accordance with the terms of the hospital's contract with DMA to provide services to Medicaid patients.

(2) Calculation of Adjustment. If a hospital fails to comply with the Division's reporting requirements under 114.1 CMR 42.00, the hospital's rate may be reduced by 5%; effective on the day following the date the submission is due. The rate will be reduced by the same dollar amount for each month of non-compliance. This adjustment shall not, in any case, exceed 50% of the hospital's Medicaid payment rate. If a hospital has not submitted the complete documentation at the time the hospital's rate is subject to change (i.e., at the start of a new rate year, or upon commencement of an amendment that affects the SPAD rate), the hospital's new rate cannot exceed the adjusted current rate. If, however, the new SPAD rate is less than the rate currently in effect, then the new rate will become effective and potentially subject to further adjustment.

(3) Other Penalties. A hospital that makes a charge or accepts payment based upon a charge in excess of that filed with the Division, or that fails to file any data, statistics, schedules, or other information pursuant to 114.1 CMR 42.00, or that files false information shall be subject to a civil penalty pursuant to M.G.L. Chapter 118G, Section 10. Such penalty shall be $ 1,000 for each day on which such violation occurs or continues, and may be assessed in an action brought on behalf of the Commonwealth in any court of competent jurisdiction. The Division may also request the Attorney General to bring an action, including injunctive relief, to enforce the provisions of 114.1 CMR 42.00.

42.07 Administrative Bulletins

The Division may issue administrative bulletins from time to time to clarify or change reporting requirements under 114.1. CMR 42.00 including, but not limited to, changes in required data to remain current with accounting standards and practices, as well as new utilization statistics.

42.08: Severability

The provisions of 114.1 CMR 42.00 are hereby declared to be severable. If any such provisions or the application of such provisions to any hospital or circumstances shall be held to be invalid or

unconstitutional, such invalidity shall not be construed to affect the validity or constitutionality of any of the remaining provisions of 114.1 CMR 42.00 or the application of such provisions to hospitals or circumstances other than those held invalid.

REGULATORY AUTHORITY

114.1 CMR 42.00: M.G.L. 118G